

## Message Text

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PAGE 01 SEOUL 07583 080828Z  
ACTION EA-12

INFO OCT-01 IGA-02 ISO-00 L-03 EB-08 SS-15 SP-02  
INR-07 /050 W

-----009345 080834Z /15

R 080655Z SEP 77  
FM AMEMBASSY SEOUL  
TO SECSTATE WASHDC 6258

C O N F I D E N T I A L SEOUL 7583

STADIS////////////////////////////////////

E.O. 11652: GDS  
TAGS: EAID, KS  
SUBJECT: POST KENNEDY COMMITMENT PL 480 PROGRAM

REF: STATE 207761

1. NO DOUBT SHOULD EXIST IN WASHINGTON AGENCIES' MINDS THAT PL 480 AND CCCC CREDITS HAVE BEEN CRUCIAL TO THE HIGHLY FAVORED U.S. GRAIN SALES POSITION IN KOREA. BOTH THE CANADIAN AND AUSTRALIAN EMBASSIES HAVE COMPLAINED TO THE ROKG FREQUENTLY THAT THEY SHOULD BE ALLOWED INTO THE MARKET AT LEAST TO SOME DEGREE AND MOST RECENTLY, THE ROKG HAS TOLD US THEY HAVE BEEN OFFERED UP-TO-15-YEAR GRAIN CREDITS IN ORDER TO GAIN ACCESS TO THE MARKET. HENCE, WE BELIEVE THAT SOME COMBINATION OF CCC AND PL 480 CREDIT WHICH GIVE ATTRACTIVE INTEREST AND MATURITY TERMS WILL BE REQUIRED TO RETAIN THE KOREAN MARKET FOR U.S. GRAINS.

2. IN ADDITION, THE EMBASSY HAS BEEN THINKING OF AN EXTENSION OF PL 480 AS AN ADDITIONAL MEANS OF COMPENSATING THE ROK, SHOULD FMS CREDITS FALL BELOW LEVELS EXPECTED BY ROK. WHILE RECOGNIZING THAT PL 480 CANNOT BE USED FOR MILITARY ASSISTANCE, WE ARE PERSUADED THAT WEAPONS IMPORTS WILL BE PRUCHASED AT THE PRICE OF LOWER GROWTH SO THAT  
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ALTERNATIVE FOREIGN EXCHANGE SOURCES WILL BE NEEDED TO MAINTAIN THAT ECONOMIC GROWTH RATE NEEDED TO ASSURE SECURITY AND POLITICAL STABILITY HERE. HENCE, WE BELIEVE THAT IN THE ABSENCE OF SUFFICIENT FMS CREDITS, PL 480 WOULD BE JUSTIFIED AS ESSENTIAL BALANCE OF PAYMENTS SUPPORT AND THAT THE WON PROCEEDS CAN BE CHANNELED DIRECTLY TO AND CLEARLY ASSOCIATED WITH ECONOMIC DEVELOPMENT PROJECTS WHICH MEET

CONGRESSIONAL MANDATES. HENCE, PENDING A CONCLUSION ON HOW THE FMS CREDIT REQUEST WILL FARE, WE WOULD URGE THAT A PL 480 OPTION BE KEPT OPEN ADDITIONAL TO THAT NEEDED TO KEEP THE GRAIN MARKET FOR THE U.S.

3. FYI - THERE MAY BE NEED FOR STILL MORE PL 480. EPB HAS APPROACHED US INFORMALLY ON SEVERAL OCCASIONS CONCERNING THE POSSIBILITY OF AN EXTENSION OF PL 480 AS A COMPENSATING MEASURE FOR THE LOCAL CURRENCY COSTS CONSEQUENT ON TROOP WITHDRAWAL. WE HAVE SO FAR NOT BEEN ABLE TO GET THE FIGURES THAT EPB HAS BEEN USING, AND PARTICULARLY THEIR ASSUMPTIONS ABOUT FMS CREDITS, BUT THEY HAVE TALKED ABOUT A NEED FOR UP TO \$1 BILLION OVER FIVE YEARS TO OFFSET INCREASED WON COSTS. EPB ARGUES THAT INCREASED CONSUMER IMPORTS WILL BE NEEDED TO OFFSET THE INCREASED WON DEFENSE EXPENDITURES BECAUSE TAX RATES CANNOT BE RAISED WITHOUT HURTING DOMESTIC SAVINGS AND ULTIMATELY INVESTMENT AND FUTURE ECONOMIC GROWTH. IMPLICIT IN THIS ARGUMENT IS THE ASSUMPTION THAT KOREA WILL BE UNABLE TO BORROW FOREIGN EXCHANGE TO INCREASE IMPORTS AND THUS RUN AN IMPORT DEFICIT. ONE POSSIBILITY WHICH WOULD SOLVE THE WON PROBLEM FOR THE KOREANS IS THAT THE ECONOMY WILL GROW FASTER THAN EIPB IS ASSUMING (THEIR 9 PERCENT FIGURES FOR GNP GROWTH ARE DRAWN FROM THE FIVE YEAR PLAN, BUT THE PRELIMINARY OVERALL RESOURCES BUDGET FOR THIS YEAR USES 11 PERCENT FOR 1977 AND 10 PERCENT FOR 1978). UP TO NOW, WE HAVE BELIEVED  
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THE AVAILABILITY OF UNEMPLOYED AND UNDEREMPLOYED LABOR WOULD MAKE A HIGHER THAN PLANNED GROWTH RATE POSSIBLE; THE PLAN PROJECTION SEEMS TO SUPPORT THAT CONCLUSION AS IT ASSUMES THAT DEMAND, IN PARTICULAR FOR EXPORTS, WILL BE THE LIMITING FACTOR ON THE FROWTH RATE. MOREOVER, WE BELIEVE THAT IMPORTS WILL ALSO HAVE TO BE LIBERALIZED A GREAT DEAL MORE THAN SO FAR, OR ANY AID WILL ONLY INCREASE FOREIGN EXCHANGE RESERVES. AT THIS POINT, HOWEVER, AND DESPITE OUR DOUBTS, WE CONCLUDE EPB MAY BE RIGHT, ARE RESERVING JUDGMENT, AND HAVE ASKED EPB FOR MORE DATA TO JUSTIFY PL 480 TO MEET PURELY DOMESTIC COSTS.  
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## Message Attributes

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**Decaption Note:** 25 YEAR REVIEW  
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**Disposition Approved on Date:**  
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**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 22 May 2009  
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**TAGS:** EAID, EPAP, KS  
**To:** STATE  
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